Training Toolkit on Government Innovation for Social Inclusion of Vulnerable Groups

Module 13
Financing and Partnerships for Social Inclusion

Contents

Learning Objectives

- To understand why financing is critical for social inclusion
- To introduce strategies and innovative approaches to addressing financing constraints of government for social inclusion
- To introduce new approaches to strategic social innovation budgeting, and financial partnerships

1. Overview

Photo credit: UN Photo/ Emmanuel Hungrecker

1. Overview

- Limited public sector funding capacity hampers the implementation of governmental innovation for social inclusion
- Vulnerable groups are likely to be most affected by these financial constraints
- The public sector can combine 2 strategies for improving the quality and quantity of governmental initiative for vulnerable groups:
    1. **Development of a more strategic social innovation budgeting**
    2. **Partnering up financially with other actors**

2. Financing for Social Inclusion

Photo credit: UN Photo/ Mark Garten

2. Financing for Social Inclusion

Why Financing Crucial for Social Inclusion?

- Unique vulnerabilities and special needs of vulnerable groups, such as lack of identity or collateral assets, require governments to make favorable or special financial arrangements to support vulnerable groups.

- Due to financial constraints confronting public sector, implementation of government innovation for social inclusion requests enhanced access to finance and expanded pool of financial resources.

- Financing for social inclusion requires supportive legislation and government policy and effective partnership with relevant stakeholders.

2. Financing for Social Inclusion

Strategies and Innovative Approaches to Addressing Financing Constraints of Government for Social Inclusion

- **Mainstreaming vulnerability in legislation and government policy/regulations** to address lack of access to financial resources and special needs of vulnerable groups.
- **Providing economic and social incentives to financial institutions** to finance the government projects for social inclusion.
- **Engaging private sector** for their financial support.
- **Engaging local communities and civil society organizations** for enhanced access to financial resources by vulnerable groups.
- **Financial markets and international financial institutions** could play important roles in financing social inclusion.

2. Financing for Social Inclusion

European Development Bank issues COVID-19 Response Social Inclusion Bond

- The **Council of Europe Development Bank (CEB)** issued a €1 billion seven year maturity **COVID-19 Response Social Inclusion Bond**. The funding will be used to support CEB member countries in mitigating the social and economic impact of the ongoing COVID-19 crisis.

- The COVID-19 Response Bond is issued within the **CEB Social Inclusion Bond framework**, which is being adapted so that financing can be extended to the health sector, where countries have increased needs because of the pandemic.

- In line with the Social Inclusion Bond framework, the proceeds raised will also finance new or existing social projects which support micro, small and medium-sized enterprises (MSMEs) in order to create and preserve jobs. The MSME sector has been hit particularly hard by the coronavirus outbreak across Europe.

Source: https://www.coe.int/en/web/portal/-/ceb-issues-social-inclusion-bond-in-response-to-covid-19-pandemic

2. Financing for Social Inclusion - Strategic Social Innovation Budgeting

What is Social Innovation Budgeting?

- Social innovation is about creating new ideas aimed at improving human and society's well-being and enhancing individuals’ ability to act. These can be products, services or models that meet social needs and create new social relationships
- Social innovation funds and programmes can be tailored to the needs of vulnerable groups

2. Financing for Social Inclusion - Strategic Social Innovation Budgeting

Participatory Budgeting

- Participatory budgeting (PB) is a democratic process in which community members decide how to spend part of a public budget. PB is in itself a form of social innovation.

- PB started in Porto Alegre, Brazil, in 1989, as an anti-poverty measure that helped reduce child mortality by nearly 20%. Since then PB has spread to over 3,000 cities around the world, and has been used to decide budgets from states, counties, cities, housing authorities, schools, and other institutions.

2. Financing for Social Inclusion - Strategic Social Innovation Budgeting

- Good approaches:
  - **Nurturing innovation** in line with ministries and agencies through judicious and evidence-based pilot programmes
  - **Promoting greater flexibility** for ministries and agencies to encourage innovation within overall fiscal constraints and guidelines
  - **Scaling up proven and tested innovation initiatives** through the use of management and evidence-based approaches
  - Stimulating the **adoption of innovative reforms** through resource allocation processes, such as spending reviews
  - Championing **forward-looking management** and policy goals

2. Financing for Social Inclusion - Strategic Social Innovation Budgeting

- What kind of **approaches to avoid** when allocating funds / preparing budgets for vulnerability initiatives.
  - **Restrictive** approach: detailed public finance rules and controls prevent effective innovative practices to take place.
  - **Unresponsive** approach: new information and reforms arising from innovations are ignored.
  - **Skeptical** approach: actively working to thwart or overturn flexibility and other rules designed to encourage innovation, such as not allowing agencies to carry over funds.

2. Financing for Social Inclusion - Strategic Social Innovation Budgeting

The India Inclusive Innovation Fund (IIIF)

- invests in innovative ventures that are scalable, sustainable and therefore profitable but address social needs of the less privileged citizens in areas such as healthcare, food, nutrition, agriculture, education / skill development, energy, financial inclusion, water, sanitation, employment generation, etc.

- IIIF is guided by four driving objectives:

  1. To Focus on India's Poor
  2. To Combine Social and Commercial Returns
  3. To Drive Employment and Livelihood Generation
  4. To Help Establish a Model for Wider Inclusive Innovation Funding

Rs 500 crore India Inclusive Innovation Fund launched

The fund will invest in innovative ventures that are scalable, sustainable and therefore profitable but address social needs in healthcare, agriculture, education, etc.

ET Bureau | Last Updated: Jan 28, 2014, 04.05 AM IST

NEW DELHI: Three years after announcing the setting up the India Inclusive Innovation Fund (IIIF), the government formally launched the fund on Monday with the initial corpus of Rs 500 crore. The ministry of small and medium enterprises would pump in Rs 100 crore while the rest would come from banks and overseas financial investors. The fund would be eventually scaled up to Rs 5,000 crore over the next two years.

Source: http://initiatives.sampitroda.com/iii/images/stories/reportpeople/Financing_Innovation_ch1.pdf

2. Financing for Social Inclusion - Strategic Social Innovation Budgeting

New Zealand - Te Pūnaha Hiringa: Māori Innovation Fund

- NHlps Maori collectives to increase their skills, knowledge and networks so they can realize the economic potential of their assets, to increase social and industrial inclusiveness.
- How: Financial support to contract a commercial advisor to provide professional business advice and mentoring; training in governance, management, strategic planning and other business skills.
- Te Pūnaha Hiringa Māori Innovation Fund currently funds 3 programmes:
  - He Tupu Ōhanga - Commercial Advisors Scheme
  - Pakihi workshops
  - Rangatahi Business Challenges

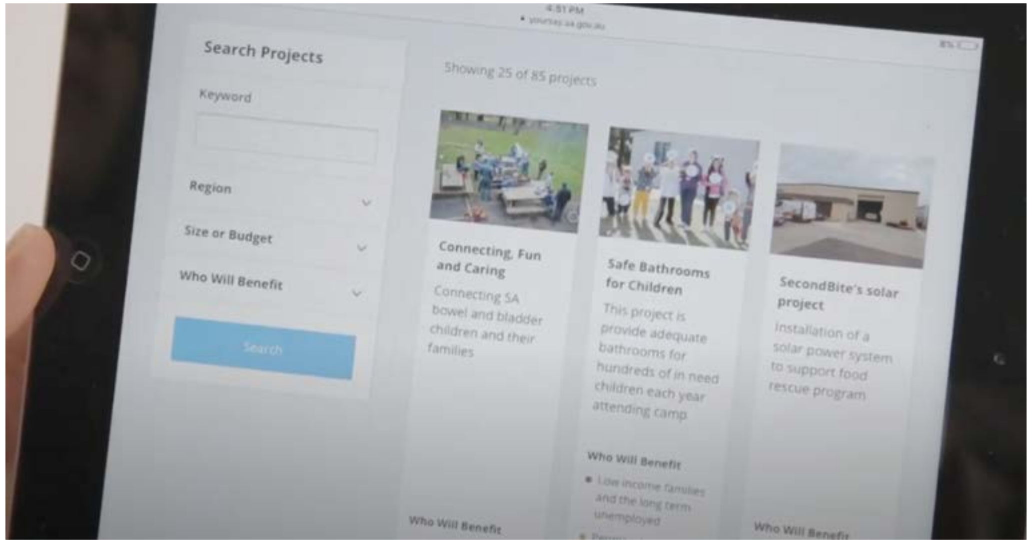
https://www.mbie.govt.nz/business-and-employment/economic-development/maori-economic-development/te-punaha-hiringa-maori-innovation-fund/

2. Financing for Social Inclusion - Strategic Social Innovation Budgeting

Australia – Fund My Community

[2017 UNPSA Winner]

Video



Source: UNDESA DPIDG Youtube https://www.youtube.com/watch?v=stVKMpZMNug&list=UUXk5I1rv3cUgsIOrpLMm7uw&index=43

3. Financial Partnerships

Photo credit: UN Photo/ Mark Garten

3. Financial Partnerships

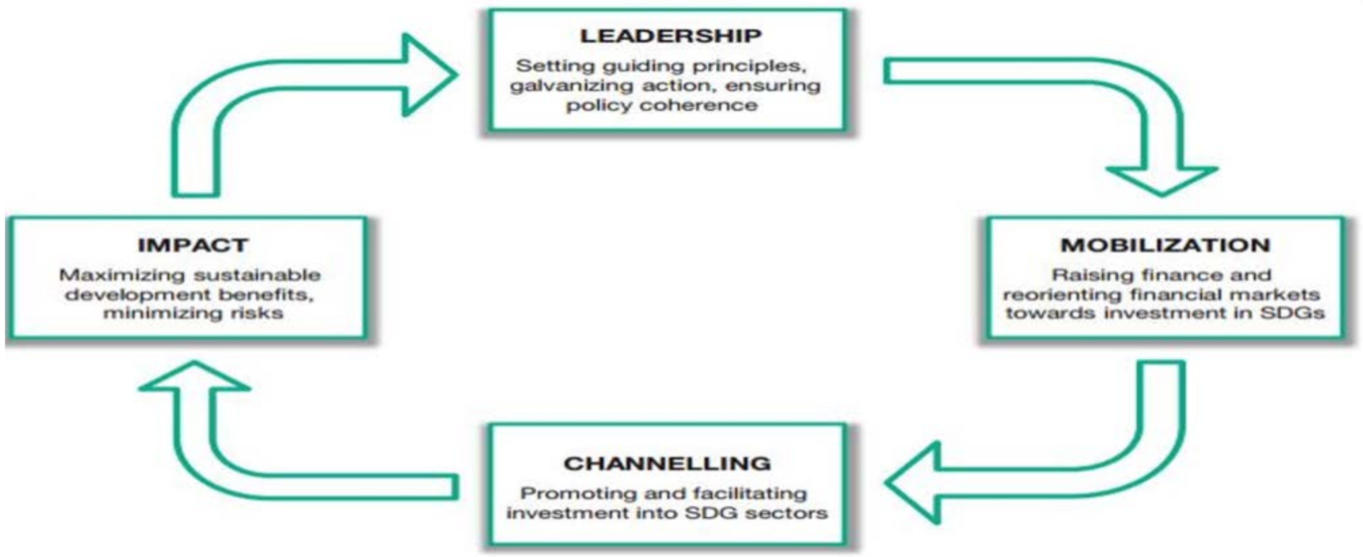
- Partnering up financially with external actors is a viable option when the budget for vulnerable groups is lacking.

- What kind of financial partnerships are available?
  1. **Official Development Assistance (ODA)**
  2. **Public-Private Partnership (PPP)**
  3. **Blended Finance**

3. Financial Partnerships

A Strategic Framework for Private Investments

- **UNCTAD** has been working on these issues, and has proposed the creation of a Strategic Framework for Private Investment in the SDGs, based on four main ideas



Source: UNCTAD, *World Investment Report 2014*.

3. Financial Partnerships

A Strategic Framework for Private Investments

- It constitutes a common set of principles for investments in SDGs & can help establish a collective sense of direction.

- Regulation-deregulation
- Risk-return vs. accessible and affordable services
- Balancing public and private
- Global scope vs. most vulnerable groups

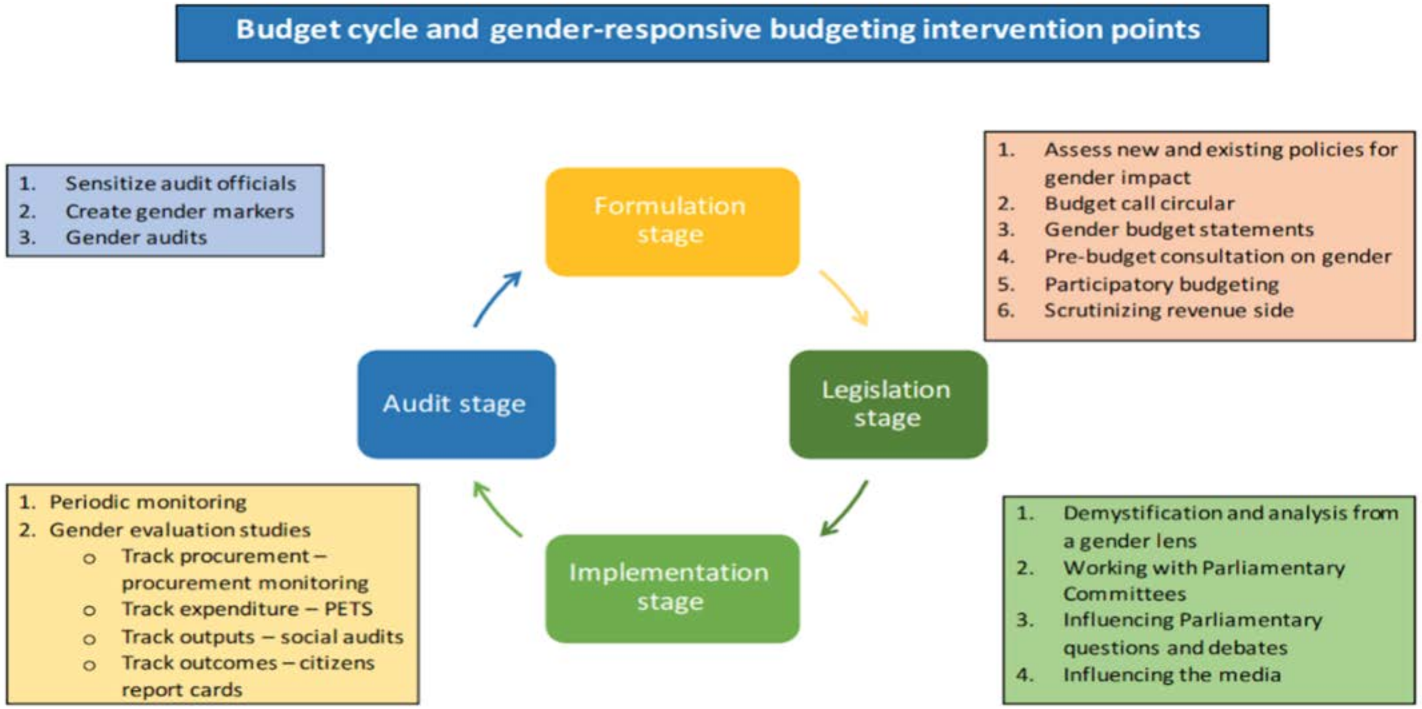
3. Financial Partnerships

Leadership

- Set investment targets
- Ensure policy coherence and create synergies
- Two ideas for institutionalizing the leadership:
  - A multi-stakeholder platform on investing in the SDGs
  - Multi-agency technical assistance facility for investment in the SDGs

3. Financial Partnerships

- **Public budgets are also important to overcome vulnerability. The example of gender-responsive budgeting**



Source: Yamini Mishra, 2019. See footnote 205.

3. Financial Partnerships

Official Development Assistance

- "Flows of official financing [for] the promotion of the economic development and welfare of developing countries [..] which are concessional in character"
- Limitations
  - Donor countries might not comply with their aid commitments or impose strings
  - Receiving countries may become perpetually dependent on ODA
  - The financial aid can get channeled wrongly

3. Financial Partnerships

Public-Private Partnership

- PPP involves **collaboration between a government agency and a private-sector** company that can be used to finance, build, and operate projects
- Financing a project through a PPP can allow a project to be completed sooner o make it a possibility in the first place
- PPP typically have contract periods of 25 to 30 years or longer.
- Financing comes partly from the private sector but requires payments from the public sector or users over the project's lifetime.
- The private partner participates in designing, implementing and funding the project, while the public partner focuses on defining and monitoring compliance with the objectives.

3. Financial Partnerships

Public-Private Partnership

- **Advantages**
  - Better public services through **improved efficiency**
  - Public sector provides for a **timely delivery within budget**
  - Economic diversification makes the **country more competitive**
- **Limitations**
  - PPPs are more suited for **large-scale government projects**
  - Very complex contracts where developing countries might lack the expertise to evaluate PPPs
  - Risk for the public sector: **increased costs** if the demand of the infrastructure does not reflect the expectations

3. Financial Partnerships

Public-Private Partnership

- **Risks**
  - Some PPPs have ended in **private benefits and public costs**
  - Example: The water project in Cochabamba in Bolivia, where the Bolivian Government and a private company worked together on infrastructure for public water supplies for the public. The resulting privatization of water services inspired large-scale riots followed by police brutality that left several people injured or killed.

3. Financial Partnerships

Public-Private Partnership

- Important: A **good internal administration of the budget** is of paramount importance as it reduces costs and increases efficiency.
- Financial support coming from the private sector might not be easily accepted when it comes to politically sensitive themes such as vulnerability.

3. Financial Partnerships: Blended Financing

Towards New Models of Public-Private Financing?

Public-private partnerships (3P)

(Generally) Long-term cooperative arrangement between public and private sector

Funding to Finance (F2F) – Blended financing

Use of public development finance to mobilize additional commercial capital to bridge the financing gap in developing countries

3. Financial Partnerships

Blended Finance

- Blended-finance approaches, which subsidies the private sector, happen mostly when they make high-impact development investments financially viable – essentially, those projects where the socio-economic returns exceed the private commercial returns.

3. Financial Partnerships: Blended Financing

Blended Finance

- "Strategic use of development finance for the mobilization of additional finance towards the SDGs in developing countries" [OECD DAC]
- "Combining concessional finance from donors or third parties alongside [..] commercial finance from other investors, to develop private-sector markets, address the SDGs and mobilize private resources" [OECD DAC]

- **Advantages**
  - Blended financing, adds a new component to PPP. It uses funds from development banks and finance institutions to mobilize additional private capital flows to developing countries.

3. Financial Partnerships: Blended Financing

Challenges of Blended Financing in Mobilization of Funds (1)

- Lower mobilization of private investments in less developed countries than in developing countries
- The impact of the blended-finance investment is sometimes not taken into consideration, or the approaches are not tailored enough to the concrete situation of a region or community..
- The multilateral and national development finance institutions and banks show sometimes low risk appetite.

How to address these challenges?

3. Financial Partnerships: Blended Financing

Challenges of Blended Financing in Mobilization of Funds (2)

- Many situations can endanger the mobilization of funds: market failures, lack of transparency, governance or leadership.
- Policy responses can improve the mobilization of funds: SDG-dedicated financial approaches, improve technical capacities, institutional framework to support private investments.

3. Financial Partnerships: Blended Financing

Challenges of Blended Financing in Mobilization of Funds (3)

- Entry barriers; Reduce political, economic barriers
- Lack of information and promotion of relevant investment projects → New investment promotion institutions
- Private sector can consider the risk-return ratios low → Risk-sharing tools
- Lack of investors expertise on vulnerability and social inclusion → Building investments partnerships

3. Financial Partnerships: Blended Financing
Challenges of Blended Financing in Mobilization of Funds (4)

Impact

- Increase absorptive capacity
- Taxation, policy coherence
- Stakeholder engagement, trade-offs

Impact assessments

Policy tools

Effective regulatory framework

Good governance

Risks

- Ensure that technological development is accompanied by human development
- Human health and safety, environmental and social protection
- Capable institutions, fast reaction to problems

Conclusion (1)

- A good internal budget administration is key to improve the quality and quantity of the investments in vulnerability initiatives.
- Public-private partnership and blended finance investments and partnerships can be key to overcome the funding gaps for addressing vulnerability.
- The UNCTAD’s Strategic Framework for Private Investments provides a good set of principles for future private involvement, with leadership, mobilization and channeling of funds and maximization of benefits and reduction of risks in the hearth of the initiative.

Conclusion (1)

- Public-private investments and partnerships can be key to overcome the funding gaps for SDGs and address vulnerability.
- Blended financing cannot be considered as the global solution, but it is a good starting point.

Group Work

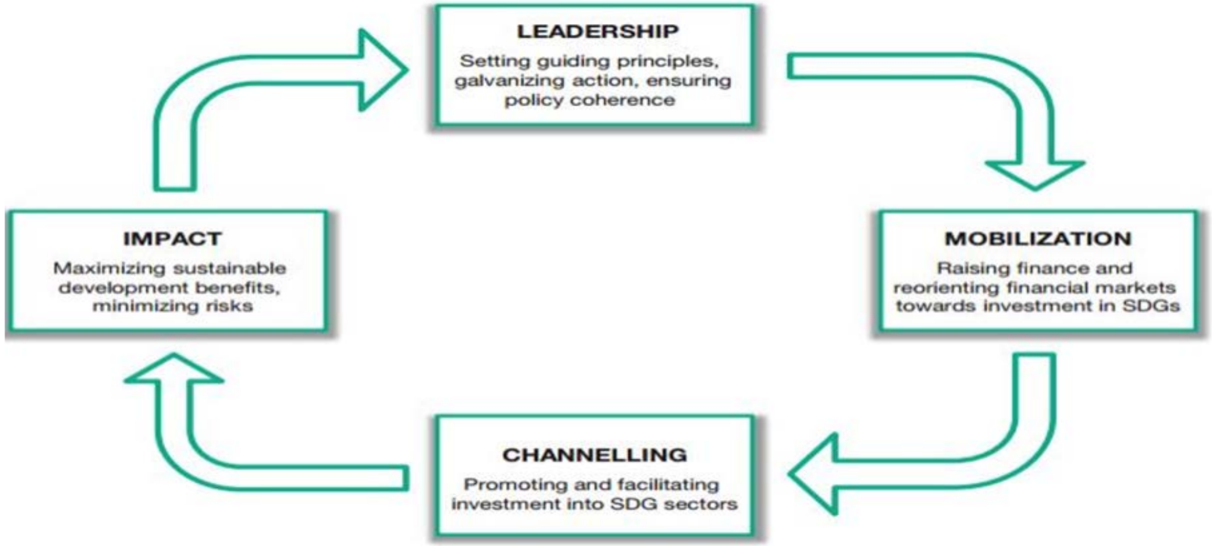
Photo credit: UN Photo/Manuel Elias

Group Work

Scenario Analysis & Solution Designing

60'

Develop a proposal answering to the challenge and using the UNCTAD approach (leadership, mobilization and channelling of funds and maximization of benefits)



Source: UNCTAD, *World Investment Report 2014*.

Background Materials

Key Readings	• UN DESA (2019), *World Public Sector Report 2019,* http://workspace.unpan.org/sites/Internet/Documents/UNPAN99332.pdf (Section 3.7 on Budgeting and non-discrimination) • UNCTAD (2015): *Investing in Sustainable Development Goals: Part 1 Action Plan for private Investments in SDGs,* https://unctad.org/system/files/official-document/osg2015d3_en.pdf • Asian Development Bank (2018): *Mobilization of private finance by Multilateral Development Banks & Development Finance Institutions,* https://www.adb.org/sites/default/files/institutional-document/521051/mobilization-private-finance-mdbs-dfis-2018.pdf • Attridge, S., Engen, L. (2019), *Blended finance in the poorest countries: The need for a better approach*, https://www.odi.org/sites/odi.org.uk/files/resource-documents/12666.pdf • Development Bank of Latin America, in partnership with OECD (2020), *National Strategies for Inclusion and Financial Literacy in Latin America and the Caribbean: Implementation Challenges*, https://scioteca.caf.com/handle/123456789/1605?from=caf.com

End of Module 13